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SUBJECT: PERU'S FERVOUR FOR GLOBAL TRADE MARCHES FORWARD

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¶1. (SBU) SUMMARY: While Peru waits for the US Congress to consider the U.S.-Peru Trade Promotion Agreement (PTPA), the GOP continues to discuss and engage in trade negotiations with numerous other countries. Peru recently completed an expanded trade agreement with Chile in October 2006; will finish negotiations with Singapore within a month; has ongoing talks with Mexico, the European Free Trade Association (EFTA) countries, and Thailand; and will start negotiations with Canada this month. Peru has formed a group with China to study the feasibility of an FTA. More complicated is Peru's strong interest in an agreement with the European Union; the EU's requirement that an agreement be with the Andean Community and the Community's own difficulties in reaching consensus have slowed progress considerably. Trade agreement negotiations under President Garcia, as with the previous Toledo Administration, demonstrate Peru's enthusiasm and commitment to expanding global trade as an engine for domestic economic development. End Summary.

USING APEC TO EXPAND IN ASIA

¶2. (SBU) Peru expects to conclude a trade agreement with Singapore by the end of March, according to Vice Minister Luis Alonso Garcia. The only remaining hurdle is the chapter on services. He told us recently that the GOP's strategy was to establish a "hub" in Asia with a country that it believes is a trade leader and sets an example for a competitive market that has benefited from the transfer of technology. Elsewhere in Southeast Asia, the GOP is negotiating a tariff-only agreement with Thailand to liberalize duties on 75 percent of the goods within both countries' schedules. The Thai agreement is currently in "stand by" status as the GOP awaits a response from the Thais. We were told privately by ministry contacts that the changes in the Thai government had delayed their talks. With Peru hosting the Asia-Pacific Economic Cooperation (APEC) forum in 2008, the government has committed itself to using APEC to expand its market access to as many of the 20 other member economies as possible.

OFFERING A BROADER BASKET OF GOODS TO CHINA

¶3. (U) With China as Peru's number two trading partner, an agreement with the PRC has been touted by many in and outside of Peru's government. The GOP and China established a joint study group to look at the feasibility of an FTA. Trade officials hope to start the actual negotiations in 2008 and to have made significant progress by the November 2008 APEC Leaders' meeting. In 2006, Peruvian exports to China totaled \$2.27 billion, an increase of 21 percent from the previous year. Though the impact of Peruvian exports in China is minimal and primarily consists of basic minerals and metals such as copper, zinc, and molybdenum, the GOP wants to expand its mix of exports to China by exporting value-added products such as off-season fruits and vegetables. In this regard, Peru is looking towards Chile as a model, as the Chileans already have an FTA with China. Peru recently started exporting table grapes to China, but the grapes carry a 16 percent tariff, while Chilean grapes enter China tariff-free.

Peru wants to compete with Chile on pure market terms -- a zero percent tariff basis -- in order to gain a larger market share in China.

CANADA COMING UP

¶4. (SBU) In February, Canadian and Peruvian negotiators agreed to move forward with FTA negotiations, and Vice Minister of Trade Luis Alonso Garcia told us that negotiations would begin in the coming weeks. Last year, the Canadians had told us that their original strategy had been to negotiate with the Andean Community (CAN) as a bloc. However, the CAN's difficulties in agreeing internally on even such simple things as a common external tariff presented considerable obstacles. Garcia told us that the GOP fully expected the FTA with Canada to be completed within six months. Though the Canadians want to model an agreement with Peru on the PTPA with the USG, the Peruvians told us that they expect talks with the Canadians to be tougher than with the United States.

LANDING LATIN AMERICAN PARTNERS

¶5. (U) Peru is pursuing an agreement with Mexico but anticipates that this will take longer as the Mexican government tends to use its market size as a bargaining chip with the GOP. As previously reported (see reftel), the GOP negotiated tariff reductions with Chile in 1998 and then conducted six rounds of trade talks over 2005 and 2006 to broaden the previous agreement into a nearly full-fledged trade agreement. This agreement, styled as an "Economic Complementation Agreement" (or ACE in Spanish) represents further evidence of Peru's willingness to engage economically with its southern neighbor, with whom it has had a history of rivalry.

REACHING ACROSS THE ATLANTIC

¶6. (SBU) The GOP is also negotiating with the EFTA -- Iceland, Liechtenstein, Norway, and Switzerland. Besides broadening Peru's access to European markets, trade with these countries would pair Peru with nations that are highly ranked on measures of wealth, education, and health. As noted by Eduardo Ferreyros, the Trade Ministry's General FTA Coordinator, completing agreements with higher developed countries is a more dynamic strategy for Peru in terms of attracting investment, technology, and business practices.

¶7. (SBU) The European Union (EU) and the Andean Community (CAN) met in early March to begin discussions on a trade agreement. According to Cristian Espinosa, General Director of CAN, the EU prefers a trade bloc to trade bloc agreement over deals with individual CAN countries (current members are Peru, Colombia, Bolivia, and Ecuador), and is willing to wait for CAN members to establish common negotiating positions. The CAN countries have widely diverging external tariffs, with Colombian tariffs higher than most.

THE ANDEANS: CAN THEY GET TO YES?

¶8. (SBU) Progress for such an agreement is moving at a slow

pace due to current difficulties among the members of CAN in getting to consensus on trade. EU Mission contacts in Lima have admitted to us privately that they knew it would be difficult for CAN to move forward on an agreement with the EU, given the divergent trade policy practices. But there are other factors as well and the problems may, in fact, be deeper, given the evolution in Ecuador and Bolivia's politics. High-level Foreign Ministry contacts report anecdotal evidence that both Ecuador and Bolivia have begun to express distinctly different philosophies on trade and the value of open economies in recent meetings, putting them at odds with Peru's trade strategy. While in Europe during this month, Peru's Foreign Minister, Jose Antonio Garcia Belaunde, noted publicly that Bolivia wants to raise tariffs on imports and that Bolivia and Ecuador both expressed their preference for only a limited agreement with the EU.

COMMENT

¶9. (SBU) Peru is reaching out to Latin neighbors, NAFTA partners, and APEC partners to expand trade and attract investment. The GOP's active engagement in free trade negotiations with multiple partners clearly indicates the country's continued commitment to market integration with the global economy, and an element of policy continuation from the Toledo Administration. The government views its trade strategy as (1) an opportunity for increased economic growth and (2) a way to engage with more developed countries that will stimulate domestic economic and social reforms. Last year's debate over the PTPA served to focus interest in Peru on the potential for small and medium-sized exporters as one way to deliver the Garcia administration's goals on poverty reduction. Through this strategy, and others, the government continues to tout exports and trade as opportunities to reduce poverty by encouraging entrepreneurship among lower classes, reducing bureaucracy, and imposing transparency and the rule of law.

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